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Director of  
Central  
Intelligence

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# National Intelligence Daily

Thursday  
3 October 1985

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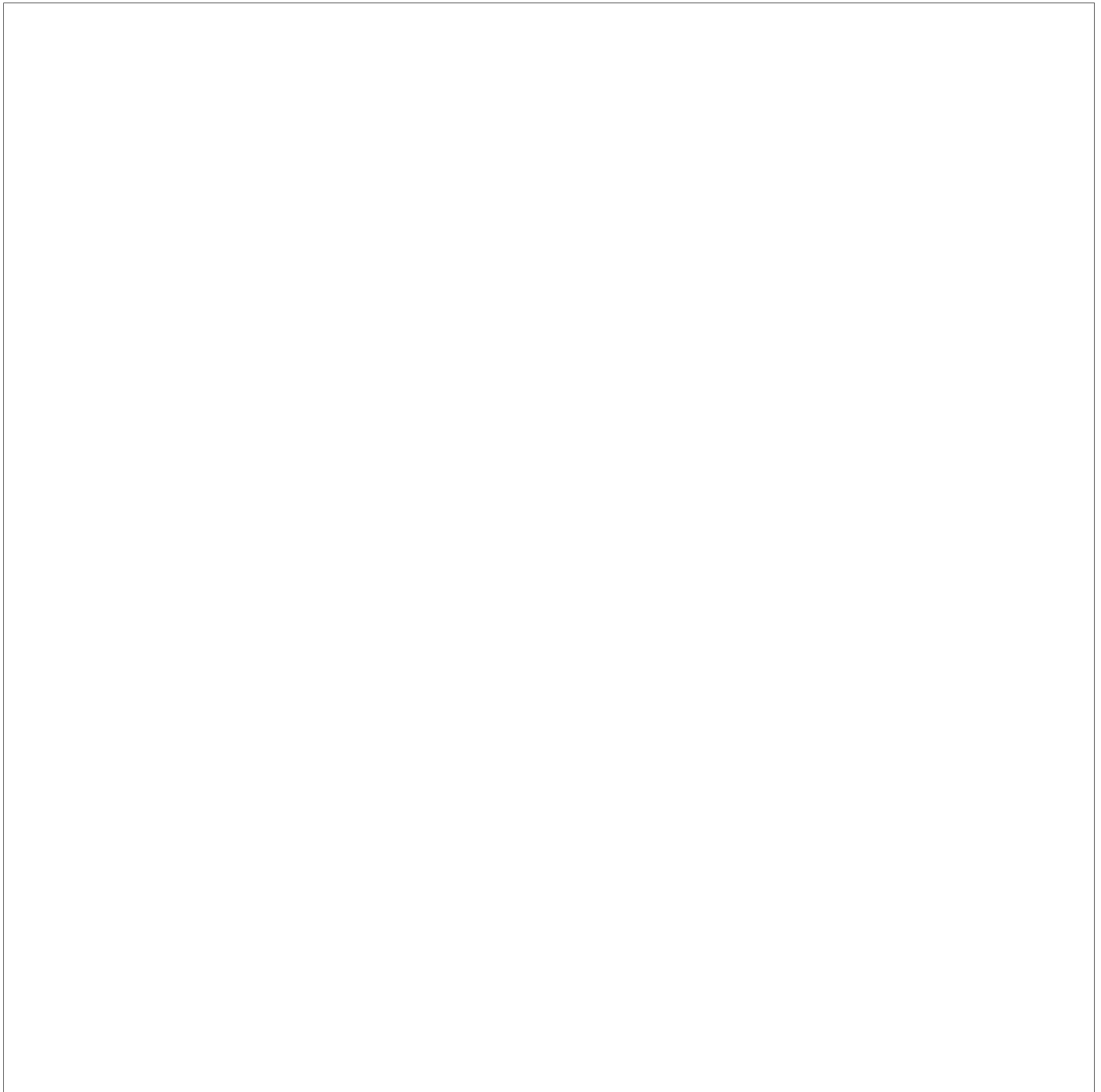
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**EC-MIDDLE EAST: Concern About Peace Process**

***Israel's raid against the PLO headquarters in Tunisia has heightened European concerns about the prospects for Middle East peace negotiations and may prompt the EC to take a more active role in the peace process.***

EC Council President Poos said on Tuesday that the EC Foreign Ministers had authorized him to meet with a Jordanian-Palestinian delegation when it confers with British Foreign Secretary Howe in mid-October. The announcement followed a strong condemnation of the Israeli raid.

Even before the raid, senior EC officials had expressed deep concern about the lack of progress on the Hussein peace initiative and suggested the EC might increase its role in the peace process should US efforts falter.

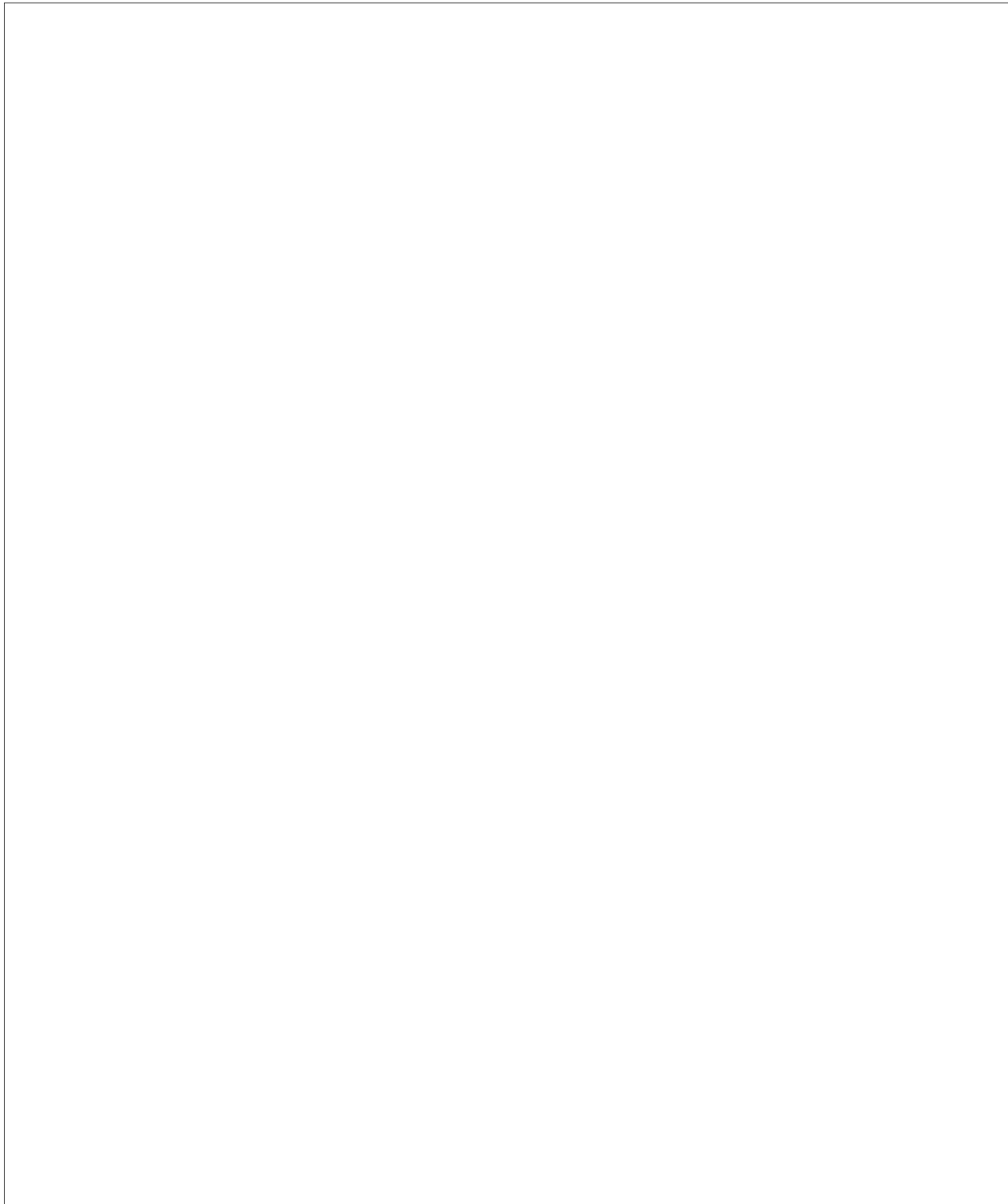
**Comment:** EC members believe that the PLO-Jordanian accord of 11 February offers the best hope for achieving an Arab-Israeli peace settlement and that the US is uniquely capable of bringing it to fruition. They fear, however, that the growing cyclical violence in the Middle East, coupled with US reluctance to meet with PLO representatives, is rapidly destroying prospects for a settlement and jeopardizing Western influence with Hussein. The decisions by the EC and the UK to meet with a Jordanian-Palestinian delegation are intended as modest steps to prompt the US to make a similar move and to reinforce what they feel is Hussein's flagging determination.

The EC is unlikely to go further toward independent involvement in the Middle East peace process as long as it believes that the US is committed to Hussein's efforts. Should this commitment appear to wane, however, the Community would begin to search for ways to break the logjam, perhaps some type of UN-linked "cover" for negotiations short of a major international conference.

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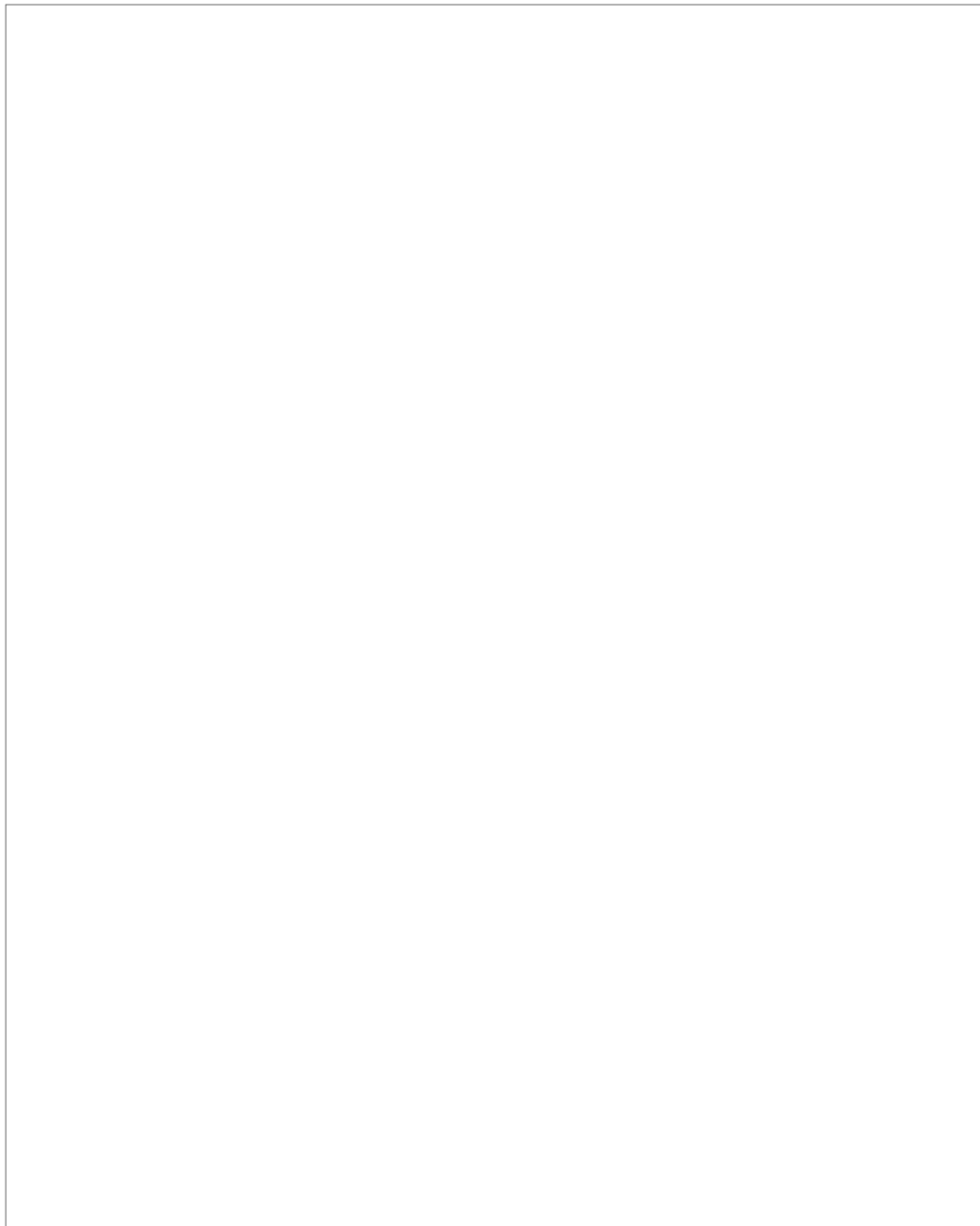
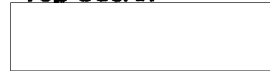
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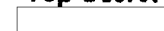
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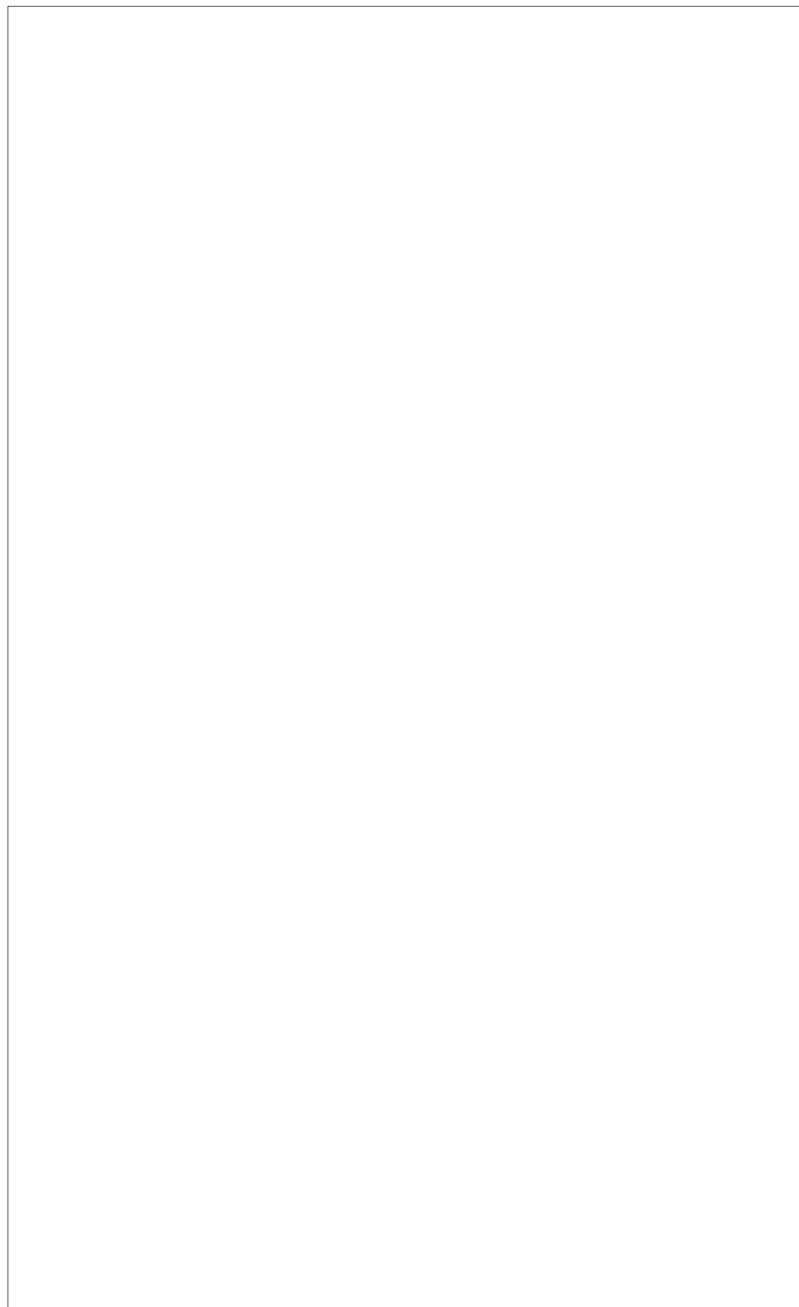
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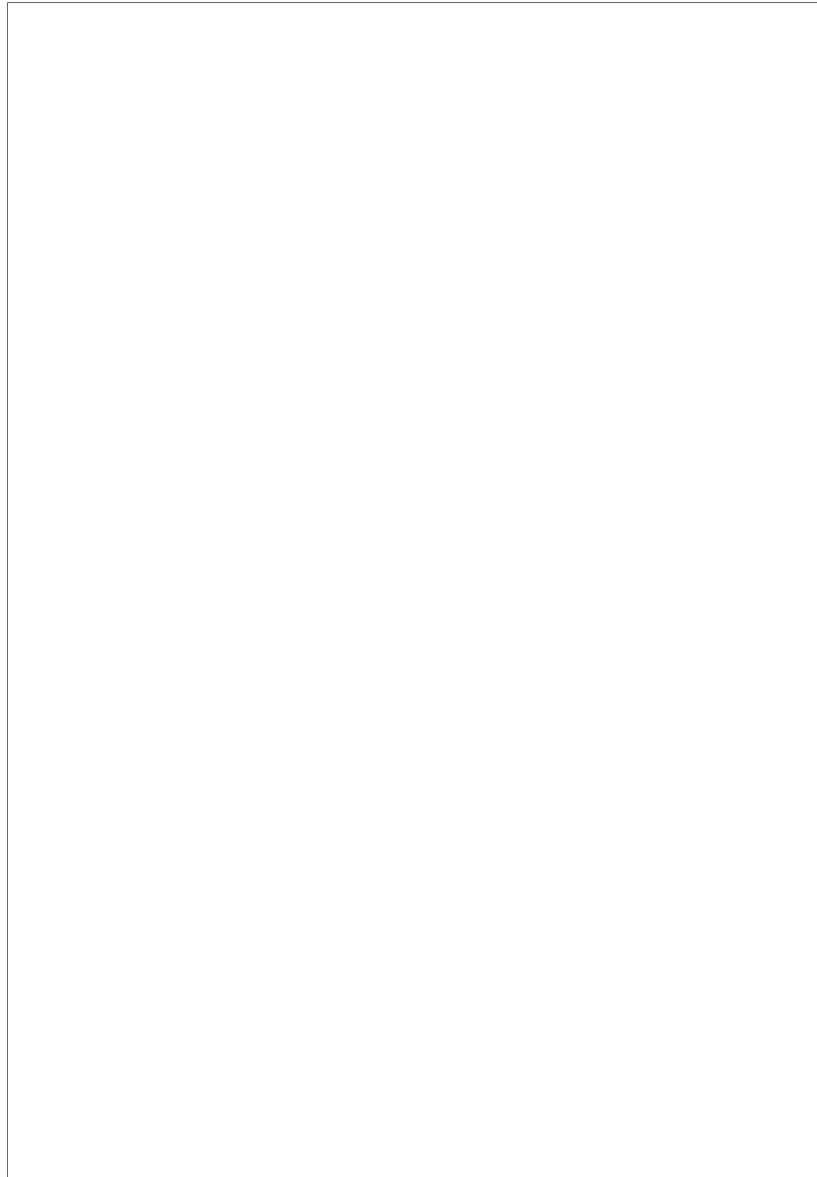
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#### **PERSIAN GULF: Reaction to Attack on Tunis**

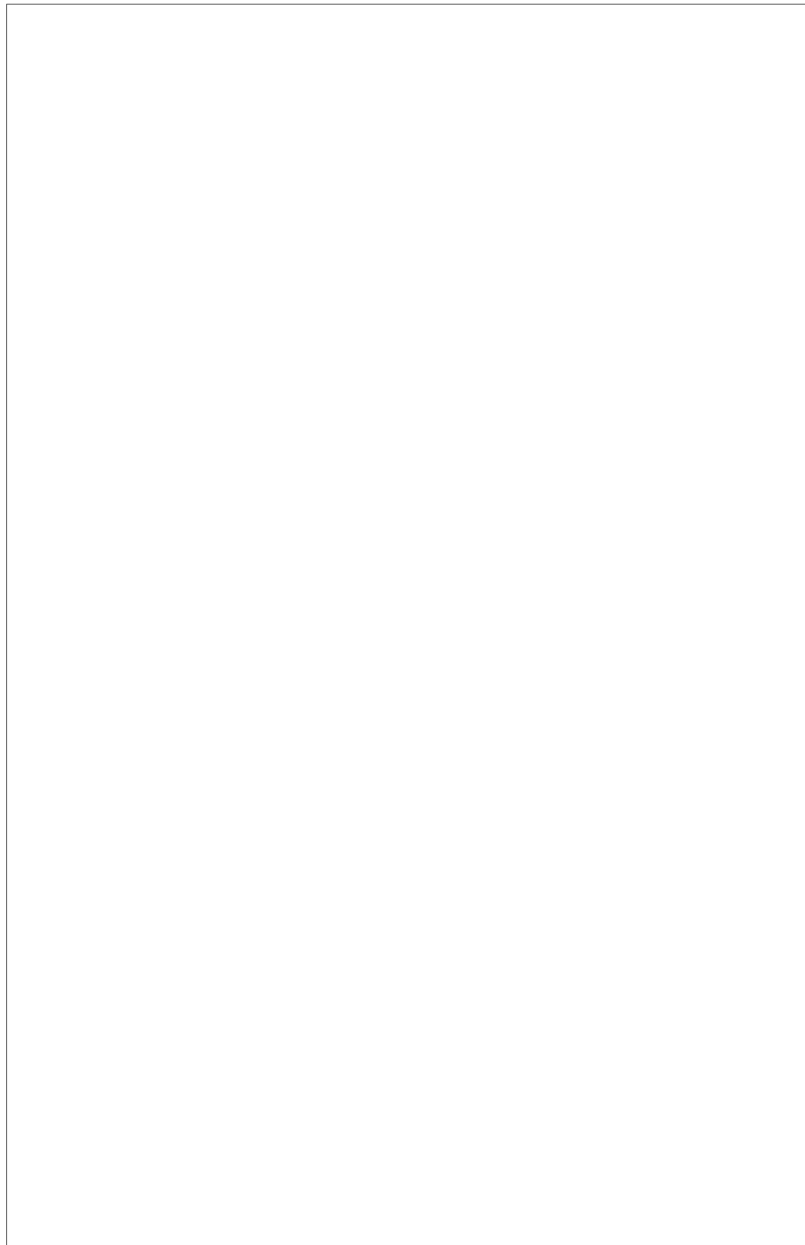
Saudi Arabia and the smaller Persian Gulf states have condemned Israel's bombing of PLO offices in Tunis but appear more worried about the implications for their own security. Saudi Prince Sultan, in a speech to the UN General Assembly, has called on the Security Council to impose sanctions on Israel immediately, comparing overall US support for Israel to Soviet intervention in Afghanistan.

**Comment:** Few tears will be shed for the PLO in the Gulf region, but leaders there admire Tunisia for its ability to balance pro-Western policies and ties to the US with support for Arab League causes. The attack, and the assumption of US complicity, will revive old worries about relying on US assurances where Israel is concerned. Security officials in the Gulf states should be able to contain small anti-US demonstrations but probably cannot protect Americans or US facilities against a terrorist attack.

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### North Korean Leadership Changes

Name*	Former Position	New Position
Yon Hyong-muk	Party Secretary (economic management)	First Vice Premier
Choe Yong-nim	Vice Premier	Other post
Kim Hwan	Vice Premier	Other post
Paek Hak-nim	Vice Minister of Defense	Minister of Public Security
An Sung-hak	Party Secretary (light industry)	Vice Premier
Kim Pok-sin	Vice Premier; Chairman, Light Industry Commission	Vice Premier; Chairman, Foreign Trade Commission
Kong Chin-tae	Vice Premier; Chairman, Foreign Trade Commission	Chairman, Public Welfare Commission

\*Note: Approximate ranking on the party's Political Bureau; An Sung-hak, Kim Pok-sin, and Kong Chin-tae are candidate (nonvoting) members.

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#### **NORTH KOREA: Changes in the Leadership**

North Korea yesterday announced new assignments for seven of the 33 officials on the party's ruling Political Bureau. The party secretaries for economic management and light industry were named vice premiers, two vice premiers were shifted to other posts, and Political Bureau-level officials were assigned to the government portfolios for public security, welfare, and foreign trade.

**Comment:** The full implications of these changes are unlikely to become apparent for some time. At a minimum the regime appears to be trying to reinvigorate lagging performance in foreign trade and consumer goods and services. At least one of those shifted to other posts may now be involved with P'yongyang's effort to develop a dialogue with South Korea; in late 1983 similar terminology was used to describe the appointment of an official who became a key participant in the North-South dialogue. Trade, the standard of living, and internal security are taking on more importance as the interaction with South Korea increases.

#### **INDIA-SRI LANKA: Cease-Fire Talks**

India is urging Sri Lanka to agree to a formal cease-fire with Tamil militants before a new round of fighting—for which both sides are prepared—can erupt. Indian Foreign Secretary Bhandari, who was in Colombo last week, has pushed Sri Lankan President Jayewardene to accept terms proposed by the militants to monitor a cease-fire.

if a cease-fire is established, three main militant groups are prepared to accept an Indian-brokered settlement giving limited autonomy to the Tamils.

**Comment:** New Delhi is determined to keep the peace talks on track. The willingness of the militants to meet with Bhandari and consider arrangements to monitor a cease-fire suggests they are now prepared to settle for only limited autonomy for Tamils. Without a lasting cease-fire agreement, New Delhi fears recent progress toward a settlement will be lost.

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### **CANADA: Bank Controversy Growing**

The appointment of a Supreme Court judge to investigate the events surrounding Ottawa's recent decision to close two regional banks will not end the controversy. The failures, the first since 1923, occurred despite Ottawa's efforts to save the banks. [REDACTED]

**Comment:** Conflicting evidence regarding Ottawa's attempt to bail out the banks and charges that the government's actions were politically motivated have allowed the opposition to bring the competence of financial ministers into question. Prime Minister Mulroney hopes the appointment of a jurist to conduct the inquiry will curb parliamentary debate and forestall demands for ministerial resignations. Although no national bank is in trouble, federal officials fear the acrimonious debate will further erode confidence in the banking system and endanger Ottawa's efforts to aid several regional banks now having liquidity problems. [REDACTED]

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### Terrorist Watch

#### Western Europe

— The **Belgian** Communist Combatant Cells may attack US or Belgian targets this month to commemorate the group's first anniversary. The group has bombed five defense-related firms and Belgian political targets since last October and has threatened to kill "Yankee military."

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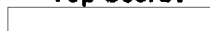
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**In Brief**

**Americas**

- **British** Liberal leader Steel to meet **Argentine** President Alfonsin in Spain this weekend . . . Labor leader Kinnock met with Alfonsin last month . . . meetings may have Prime Minister Thatcher's approval as way of keeping dialogue going.

**Europe**

- Regional underground Solidarity leader arrested yesterday is seventh activist detained in last two weeks . . . **Polish** regime probably trying to intimidate populace on eve of parliamentary election, weaken opposition's boycott campaign.

**East Asia**

- All 20 **South Korean** students on trial for USIS sit-in given jail terms of two to seven years . . . less than prosecutors demanded . . . harsh enough to bring on almost daily campus protests.

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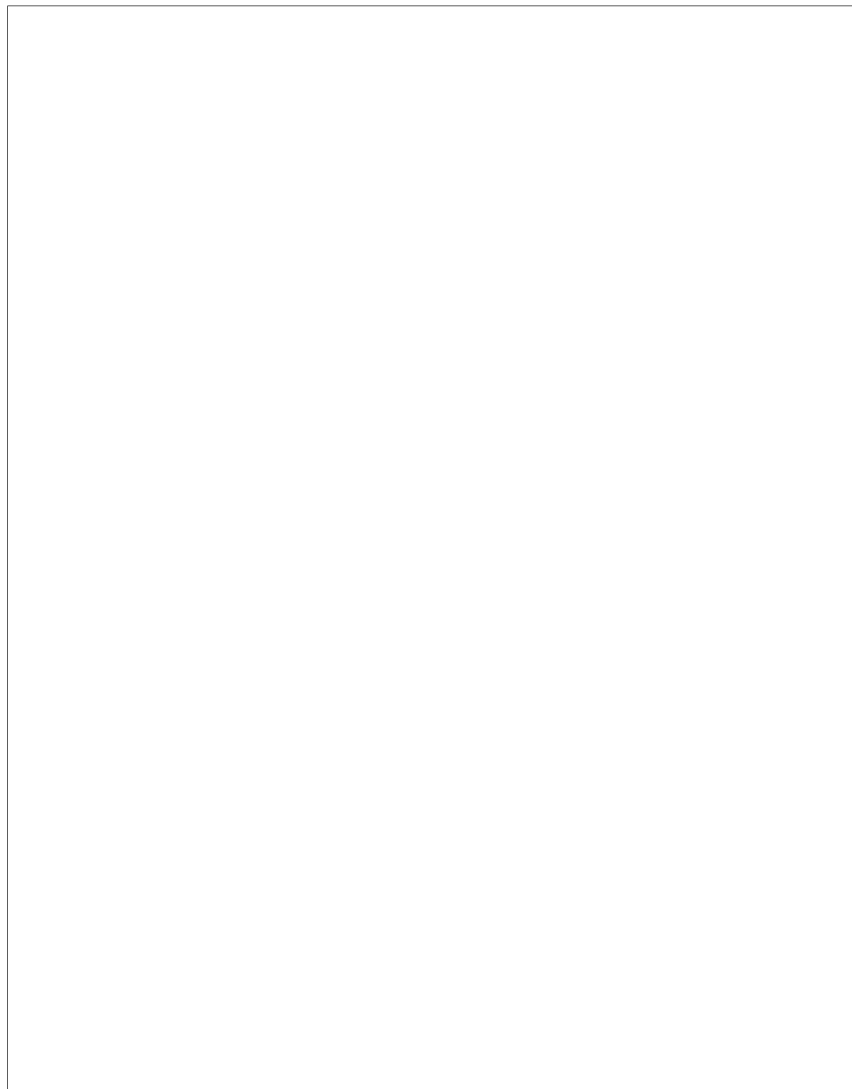
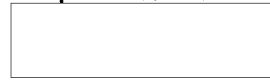
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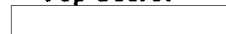
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### Special Analysis

IRAN:

#### Foreign Exchange Controversy

***A serious foreign exchange shortage has provoked bitter debate within the Iranian regime over economic policy and is resulting in widespread criticism of the government. Since the beginning of the year, sagging oil sales and low foreign exchange reserves have led Iran to reduce its imports drastically. Industrial output, already depressed, has fallen even further, and more cuts in an austere development budget are inevitable. Iraqi attacks on Khark Island have heightened uncertainty over the future availability of hard currency and have caused the government to intensify efforts to restrict spending.***

Oil brings in 95 percent of Iran's export earnings. Low oil revenues in the first six months of the year forced Tehran to slash imports to avoid drawing on its already limited foreign exchange reserves. Preliminary data indicate that imports dropped at least 40 percent in the first half of 1985.

#### Slowdowns and Shortages

Reduced imports have slowed development, lowered production, and aggravated the general scarcity of consumer goods.   
most goods are in short supply or unavailable at official prices, forcing buyers to pay black-market rates.

Heavy Industries Minister Nabavi said in July that the nation's inability to buy raw materials and spare parts had caused production for March through June to fall 24 percent as compared with the same period in 1984. Prime Minister Musavi has admitted that a slowing of development is inevitable because of low oil revenues, and the Iranian press has reported the worst power and water shortages since the revolution. So far, however, Iran's ability to continue the war has not been seriously affected.

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#### Political Fallout

The press and more moderate members of the Consultative Assembly have been blaming Musavi's government, made up largely of radicals, for economic mismanagement and corruption. The Assembly is trying to use these charges to win a greater role in economic affairs.

Dissatisfaction with the economy has increased generally, including groups whose support is vital to the regime.

#### Outlook

Continuing weakness in the world oil market and Iran's low foreign exchange reserves—now equivalent to only about three months' worth of imports—will keep Tehran in serious economic trouble. Over 80 percent of Iran's oil exports are shipped through Khark Island, and Iraqi attacks—which show no sign of easing—have reduced exports from the island by more than half, now 700,000 barrels per day. Tehran would be hard pressed to deal with a lengthy shutdown of the terminal, especially if labor problems recur or the fall harvest is poor.

Even if Iraq does no more than maintain its current level of military pressure against Khark, Iran will have to ask for still greater sacrifices from its war-weary people. The economy is by far the most divisive issue facing the regime, and increased infighting over distribution of the shrinking economic pie is likely to increase conflicts between opposing factions.

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### Special Analysis

#### INTERNATIONAL: Pressure for Monetary Reform

***Economically troubled Third World countries plan to call for international monetary reform during the annual IMF meeting opening this weekend in Seoul. Although industrial countries recognize shortcomings in the existing system, most do not accept the need for major institutional changes.***

Developing countries have submitted the following specific proposals for monetary reforms for formal consideration at the IMF Interim Committee meeting:

- Coordination of macroeconomic policies by requiring industrial countries to submit to an explicit consultation process with the IMF.
- Reduction of fluctuations in exchange-rates by adopting target zones for key international currencies.
- Promotion of developing countries' growth by easing domestic economic measures required for international loans.
- Improved loan availability by increasing the funding of the IMF and the World Bank.

Most industrial countries share the Third World's concerns about key features of the monetary system—including volatility of exchange rates—but remain unwilling to support extensive reform. Instead, they will probably stand by the strategy they approved this summer—improving existing, informal arrangements to coordinate macroeconomic policies, including exchange-rate fluctuations. Most major industrial countries—including the US, West Germany, and the UK—believe that consistent and sound macroeconomic policies in industrial nations would foster greater private lending and ease pressure to increase international liquidity with official funds.

Publicized reports of improved World Bank funding is apparently being well received in debtor countries, but they will probably view it as not going far enough. We believe these countries—especially Brazil and Mexico—will push vigorously for even greater increases in lending by international banks and for easier conditions for IMF loans to promote growth and development.

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